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Review of the efficiency of the administrative and financial functioning of the United Nations

Comprehensive report on United Nations procurement activities

Report of the Secretary-General

Addendum

Sustainable procurement

Summary

The present report is submitted to the General Assembly pursuant to the provisions of paragraph 33 of its resolution 62/269, by which the Assembly requested the Secretary-General to prepare a comprehensive report on the content of and criteria for the concept of sustainable procurement, including detailed information on its possible impact on the diversification of the origin of vendors and on international competition, including for developing countries and countries with economies in transition.

Sustainable procurement is seen as an enabler and a fundamental tenet for sustainable development programmes that allow the United Nations to be more consistent with the principles of sustainable development as stated in the Johannesburg Plan of Implementation adopted in 2002 by United Nations Member States. A gradual implementation of sustainable procurement will formalize a number of values, principles and provisions which already exist in the Organization and in the commercial markets where the United Nations Secretariat operates. Those values, principles and provisions should be factored into future acquisition projects in accordance with a phased approach to facilitate an evolution of today's procurement function towards a more inclusive and responsible buying approach.

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It is proposed that the implementation of the sustainable procurement concept will gradually take into account economic, social and environmental elements, of which many of the principles already exist in the current United Nations Secretariat procurement framework.

The Secretary-General believes it is important that he take the lead in implementing these critical initiatives.

I. Introduction

1. The Secretary-General in his report of 6 November 2007 (A/62/525, paras. 137-140), discussed the need for sustainable procurement practices. Following its consideration of that report, the General Assembly, in its resolution 62/269, paragraph 33, requested the Secretary-General to prepare a comprehensive report on the content of and criteria for the concept of environmentally friendly and sustainable procurement, for consideration at its sixty-fourth session. Accordingly, the Secretariat with the assistance of the secretariat of the United Nations Environment Programme (UNEP) has prepared this report.

2. It should be noted that the High-level Committee on Management and the Environment Management Group have already begun actively exploring the application of the concept of sustainable procurement by the United Nations. This was done in response to the Johannesburg Plan of Implementation adopted by the World Summit on Sustainable Development, held in Johannesburg, South Africa, in 2002. The Summit concluded that fundamental changes in the way societies produce and consume are indispensable for achieving global sustainable development. It called on Governments, relevant international organizations, the private sector and all major groups to play an active role in changing unsustainable consumption and production patterns according to the fundamental principle of common but differentiated responsibilities. Among the actions set out in the Plan was to take sustainable development considerations into account in decision-making, including on national and local development planning, investment in infrastructure and business development, and by promoting public procurement policies that encourage development and diffusion of environmentally sound goods and services.

II. Sustainable procurement: concept and criteria

A. Concept

3. The United Nations Secretariat operates to service the other principal organs of the United Nations and administers the programmes and policies laid down by them. In this process, United Nations procurement activities affect the social, economic and environmental aspects of the communities and countries the United Nations operates in and have an effect on the well-being of those communities where goods or services are procured and where they are consumed.

4. Consequently, and to ensure that the impacts are positive at both the global and the local level, sustainable procurement could be described as an acquisition process whereby organizations meet their requirements for goods, services, works and utilities in a way that achieves value for money on a whole of life basis in terms of generating benefits not only to the Organization, but also to society and the economy, while minimizing its impact on the environment.[1]

[1] Definition adopted by the Task Force on Sustainable Public Procurement led by Switzerland (members include Argentina, China, Czech Republic, Ghana, Mexico, Norway, Philippines, Switzerland, United Kingdom, United States, State of São Paulo (Brazil), UNEP, International Institute for Sustainable Development, International Labour Organization, European Commission (Directorate-General for the Environment) and International Council for Local Environmental Initiatives) and adopted in the context of the Marrakech Process on sustainable consumption and production led by UNEP and the Department of Economic and Social Affairs of the United Nations Secretariat.

5. In that regard, sustainable procurement considers the environmental, social and economic consequences of design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these consequences throughout the supply chain.[2] Sustainable procurement looks beyond the initial purchase price and short-term costs, to realize the long-term value for the Organization in all acquisition projects, products and services.

6. However, sustainable procurement should be applied in phases and through small incremental steps at a pace determined by the degree of maturity of the supply market, the development of a policy framework, staff training, and the degree of readiness of the Organization to achieve sustainability.

B. Criteria

7. The key criteria underpinning sustainable procurement refer to the three pillars of sustainable development, namely:

- Economic factors include the costs of products and services over their entire life cycle, acquisition, maintenance, operations and end-of-life management costs (including waste disposal) in line with good financial management.
- Social factors include social justice and equity; safety and security; human rights and employment conditions.
- Environmental factors include emissions to air, land and water, climate change, biodiversity, natural resource use and water scarcity over the whole product life cycle.

Sustainable procurement involves the integration of the above-mentioned factors into all procurement decisions taken by the Organization. Attaining the appropriate balance between each of these factors is of paramount importance when factoring sustainability into procurement policy and decision-making policy.

C. Sustainable procurement is responsible procurement

8. From procurement regulation and rule perspectives, sustainable procurement fits well in the principles of existing financial regulation 5.12, namely, (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the interest of the United Nations.

9. Sustainable procurement is not an entirely new concept in the Secretariat procurement function. Key elements, including prohibition of child labour and forced labour, respect for human rights and the requirement for vendors to have environmental policies, are already included in the United Nations General Conditions of Contract, the United Nations Supplier Code of Conduct and the best value for money principle.

10. It may be noted that the concept of best value for money could be consistent with the concept of sustainable procurement. This is because the best value for

[2] United Kingdom, Department for Environment, Food and Rural Affairs, *Procuring the Future*. Report of the United Kingdom Sustainable Procurement Task Force, 2006.

money concept is defined by the United Nations Secretariat as the "optimization of whole-life costs and quality needed to meet the user's requirements, while taking into consideration potential risk factors and resources available".[3] Accordingly, economy and effectiveness can be delivered by ensuring that quality factors extend to environmental performance, where reduced energy consumption results in greater efficiencies and long-term cost savings.

11. It should be noted that sustainable procurement brings both financial and non-financial benefits. These benefits may be direct or indirect cost savings to the Organization or its stakeholders. Some of the indirect non-financial benefits of sustainable procurement include the reduction of risk to the Organization, reduction of environmental pollution, land degradation, flooding and drought, and better relations with the local communities. It is therefore necessary to persuade the requisitioners to redefine their concept of cost and benefits and expand their definition of those concepts beyond the limitations of the short-term economic criteria. In this regard, UNEP and the Environment Management Group have already developed guidelines for product specifications for, among other things, office furniture and office supplies such as paper and stationery, cleaning products, information technology equipment and vehicles which encompass sustainable criteria when buying those selected commodities, and the United Nations Office for Project Services (UNOPS) has developed a guide on eco-labels.[4]

12. Fairness, integrity and transparency as well as principles of international competition underline the sustainable procurement concept and are guaranteed through the incorporation of sustainability criteria at the early stages of the procurement process. In particular, the inclusion of sustainability considerations in the source selection plan is one mechanism to ensure that sustainable procurement is inserted in the process as early as possible and is balanced with the other key elements that a procurement action needs to factor in, such as price, market analysis and the like.

D. Sustainable procurement is consistent with United Nations regulations and rules

13. The United Nations General Conditions of Contract already contain provisions that relate to the economic and environmental aspects of sustainable procurement, as follows:

(a) Clauses that prohibit child labour, the sale or manufacture of mines, engaging in sexual exploitation and unethical behaviour. Sustainable procurement requires that the social aspects of supply, such as working conditions, rates of pay, and human rights, are taken into account.

(b) Clauses that request suppliers to respect their national legislation (observance of the law clause): several Member States are signatories of the United Nations conventions related to environment and labour (CITES, Montreal Protocol, Stockholm Convention, ILO conventions etc.) that ultimately have the potential to

[3] United Nations Procurement Manual.

[4] For UNEP sustainable procurement guidelines, see www.unep.fr/scp/sun/guidelines/index.htm. For UNOPS eco-labels guide, see www.ungm.org/SustainableProcurement/toolsUN/Env%20Labels%20Guide_v9.pdf.

lead to national legislation which has to be observed by companies. By adhering to a standard of appropriate environmental and social norms, United Nations procurement protects the Organization's reputation by dealing with companies which adhere to appropriate national legislation.

14. The United Nations Supplier Code of Conduct[5] expresses the expectations that the United Nations has of its suppliers and encourages them to register with the United Nations Global Compact initiative. Sustainable procurement will enable the Secretariat to enforce the provisions of the Supplier Code of Conduct more effectively. The 10 principles of the Global Compact[6] cover issues such as human rights, labour rights, bribery and corruption, as well as expectations on environmental management.

III. Sustainable procurement in the United Nations context

A. Lead by example

15. The increasing interest in sustainability issues seen in the world media and among the general public in many parts of the world will in principle mean that the United Nations may soon come under increased pressure and scrutiny over its own procurement activities and operations. Member States have asked the specialized agencies and United Nations funds and programmes for more accountable housekeeping measures. The Governing Council of UNEP, for example, requested UNEP to report on its progress in "green housekeeping" (decisions 18/10 and 24/1). The Universal Postal Union was also requested by its Congress to include sustainable development in all its activities (in administration and in the field) to promote corporate social responsibility in the worldwide postal sector (resolution C 34/2008). The Department of Peacekeeping Operations, the Department of Field Support and UNEP agreed on an environmental policy for United Nations field missions.

16. Similarly, in December 2007, the General Assembly decision concerning the Global Compact (resolution 62/211) also encouraged the inclusion of sustainability principles in the management of the United Nations and recognized the importance in principle of the contribution of voluntary initiatives and partnerships to the achievement of the internationally agreed development goals, including the Millennium Development Goals. In particular, the General Assembly encouraged the activities of the United Nations Global Compact to advance United Nations values and responsible business practices within the United Nations system and among the global business community.

17. The procurement function of the Secretariat should take into consideration the wider context of the environmental and corporate social responsibility in which the Secretariat itself operates. The United Nations needs to practise what it preaches. A recent evaluation report by the Office of Internal Oversight Services on the implementation of the United Nations climate neutrality strategy included clear recommendations on the need to accelerate this effort within the Secretariat itself (Assignment No. IED-09-002). The way the United Nations conducts its

[5] www.un.org/depts/ptd/pdf/conduct_english.pdf.

[6] www.un.org/depts/ptd/global.htm.

procurement activities plays a pivotal role in supporting this effort by associating energy and cost savings with envisaged reduction of greenhouse gas emissions through more cognizant procurement decisions based on whole of life cycle costing considerations.

B. Adoption of sustainable procurement in the United Nations

18. The adoption of sustainable procurement involves assessing supply markets and proceeding at a pace that is commensurate with the level of market maturity. To guarantee success, both United Nations staff involved in the acquisition process and suppliers should receive training on the concept and expectations of the United Nations. Clear understanding of the United Nations objectives will also enable suppliers to realign their capacity and strategy with those of the United Nations. It is also essential to maintain an open line of communication between the procurement staff, requisitioners and suppliers; and to inform all stakeholders of the Secretariat about the revised acquisition strategy. In order to ensure smooth implementation of the concept of sustainable procurement, training will have to be complemented by detailed standard operating procedures within the existing United Nations procurement procedures and methodology. Since implementation should be a gradual process, the Procurement Division will be expected to put a mechanism in place to implement, monitor and measure results so as to detect deficiencies and take corrective actions, if required.

C. Expectations of suppliers

19. The United Nations Global Compact is now embraced by over 5,200 companies in 135 countries, with equal participation of small and medium-sized enterprises and large companies. More than half of the participants are from developing countries and countries with economies in transition.[7] As demonstrated by the growth of the Global Compact, companies around the world are embracing corporate citizenship as an important way of proactively managing risks in today's interdependent world.

D. Sustainable procurement in Member States

20. Sustainable procurement is increasingly implemented in a number of countries across the globe as a policy instrument to support national, regional and international policies and programmes such as poverty eradication, wealth creation, stimulation of local economies and employment, national sustainable development strategies, and innovation and the development of environmental technologies.

21. Sustainable procurement in public procurement so far is a confirmed mechanism in the countries of the Organization for Economic Cooperation and Development. In March 2004, the European Union Parliament and Council adopted a directive to coordinate procedures in public procurement for works and services in all European Union member States that allows for the inclusion of environmental

[7] Global Compact Annual Review 2008.

criteria along with best value for money.[8] The European Commission is also working towards the inclusion of social criteria in the public procurement of member States.

22. Activities connected with sustainable procurement are also to be found in many countries of Central and Latin America, including Mexico, on paper and timber-related products, energy, waste and water, and Argentina, in particular the city of Buenos Aires. Chile is producing guidelines on energy efficiency as part of its electronic catalogue system and has reported overall savings of up to 2.5 per cent of the national procurement budget through its operations.

23. In Africa, Ghana is embarking in a large project on sustainable procurement as part of its public procurement reform.

24. In Asia (China, India, Republic of Korea and Thailand), laws are in place that allow sustainable procurement, and active consideration is given to how to enforce these laws through the creation of eco-labels, as is the case in China and Thailand for, inter alia, photocopy machines, paper, food and computers.[9]

25. Under the Marrakech Process on sustainable consumption and production that is led by the Department of Economic and Social Affairs and UNEP,[10] sustainable public procurement has been identified as an important instrument for achieving sustainable economic development. Within this international process, a Task Force on Sustainable Public Procurement was created, supported by Switzerland. Its members include Argentina, China, the Czech Republic, Ghana, Mexico, Norway, the Philippines, the United Kingdom of Great Britain and Northern Ireland, the United States of America, the State of São Paulo (Brazil), as well as international organizations such as UNEP, the United Nations (Department of Economic and Social Affairs), the International Labour Organization and the European Commission.

26. The above-mentioned Task Force produced a methodology to develop and implement national strategies on sustainable public procurement which is currently being tested under European Commission and Swiss funding with the Ministries of Environment and Finance in seven countries.[11]

E. Sustainable procurement in multilateral development banks

27. In 2007, the Asian Development Bank produced *Environmentally Responsible Procurement: A Reference Guide for Better Practices*.[12] The World Bank has produced a master document for works (2006), which includes provisions for environmentally and socially responsible procurement, and implements it and a corporate responsibility programme at its headquarters and progressively in the

[8] European Union Directive 2004/18/CE of 31 March 2004, article 5.

[9] A full list of third-party certified eco-labels worldwide is available from www.globalecolabelling.net/.

[10] www.unep.fr/scp/marrakech and www.un.org/esa/sustdev/marrakech/.

[11] Chile, Costa Rica, Lebanon, Mauritius, Mexico, Tunisia and Uruguay. Colombia and Ecuador have expressed interest in being associated with the project.

[12] Available from www.adb.org/Documents/Reports/ERP/default.asp.

construction of World Bank buildings worldwide.[13] The African Development Bank is currently working on a sustainable procurement policy. The Inter-American Development Bank is also committed to environment and social sustainability through a variety of actions in its headquarters and in the field.[14]

F. Environment Management Group and High-level Committee on Management Procurement Network

28. Within the United Nations system, two interagency bodies, the Environment Management Group and the High-level Committee on Management Procurement Network-Procurement Network, are jointly working on the development of tools, capacity-building and practical guidance for United Nations agencies on sustainable procurement. It is expected that in the near future further synergies will develop among entities of the United Nations system in the domain of sustainable procurement.

IV. Impact on the diversification of the origin of vendors and on international competition

A. Impact on international competition

29. Procurement by the United Nations Secretariat, which has a spending power of more than $3 billion per annum, is perceived as a signal in the global market and could be a lever in markets to push for sustainable business practices. In this respect, the Secretariat's procurement should play a role in shaping the future business culture of its suppliers through ethical and socially responsible management of the procurement function. This will complement the efforts being made by government procurement agencies or departments and private commercial enterprises in this area.

30. By seeking the most appropriate solutions for particular requirements, including developing country contexts, United Nations procurement can help, in the fullness of time, to open up new opportunities for all its vendors. To achieve this, the United Nations procurement staff could encourage requisitioners to use performance-based specifications and rethink what is acquired and how and from where it is bought. This will open up competition by allowing vendors the opportunity to offer new and innovative solutions to meeting United Nations requirements. Competition will not be limited to those vendors offering high-tech solutions, but will include the whole spectrum of vendors, including those offering low-tech solutions which best fit the requisitioner's need and are effective.

31. United Nations procurement will, however, need regular contact and dialogue with the international and local business community as a way to improve its understanding of the market and express the expectations it has also in terms of sustainability performance. The Cooperation agreement between the United Nations

[13] http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:21310042~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266,00.html and http://go.worldbank.org/B35S9090L0.

[14] www.iadb.org/greening/footprint.cfm.

and the International Chamber of Commerce World Chambers Federation, signed on 4 June 2009, is a key mechanism for communicating information to current and potential vendors on how to do business with the United Nations, including United Nations values which are embodied in the Supplier Code of Conduct; and for providing more opportunities to interested vendors by using the capacity of the International Chamber of Commerce World Chambers Federation.

B. Sustainable procurement supports local economies

32. The United Nations, together with the international community, has recognized the potential offered by environmental technologies to provide employment and wealth creation opportunities in any part of the world. In Mexico, for instance, 1.5 million people are being employed to plant and manage forests, while China now has some of the world's largest solar industries. The world market for environmental goods and services stands at $1.3 trillion and is continuously growing.[15]

33. United Nations peacekeeping operations around the world have demonstrated how a focus on safety and security can be delivered alongside resource efficiencies and environmental protection. In certain instances safety and security of supply may be achieved through the use of local skills and expertise together with local materials and resources. In Afghanistan, for example, the population consisting of nomadic tribes and local residents was trained by the United Nations Assistance Mission in Afghanistan (UNAMA) to mix cement, make proper foundations, use reinforcement steel in forming, and construct buildings. By using local materials and building the capacity of local people UNAMA helped to fulfil the requirements of safety and security for the Mission as well as delivering a sustainable solution for all. This construction programme is still ongoing and can be a showcase of sustainable procurement.

34. Sustainable procurement is also firmly in line with the request of the General Assembly, in paragraph 15 of its resolution 63/270 for the Secretary-General to continue to explore additional innovative ways to promote procurement from developing countries and countries with economies in transition. Thus, sustainable procurement can be seen as a means to enhance the competitiveness of the most innovative producers in developing countries and countries with economies in transition. For example, the United Nations print office in Nairobi purchases recycled paper from a regional producer in South Africa and sanitary paper from a waste recycling company based in Kenya. Collection of waste paper for the recycling company in Kenya is carried out on the United Nations compound. This helps to save paper costs since the raw material for the paper is the United Nations compounds' waste paper itself. The additional benefit is the creation of jobs with safe working conditions.

C. Eco-labelling initiatives

35. Environmental standards for products are now seen as competitiveness factors under good public sector procurement principles. Eco-labelling schemes are being

[15] E/ESCAP/65/6 (2 February 2009).

developed also in developing countries, thereby increasing the availability of more efficient and environmentally sustainable goods and services. For example, China and Thailand have already their own labelling schemes and are supporting them through public procurement. UNEP is in charge of a project to promote eco-labelling in Brazil, China, India, Kenya, Mexico and South Africa and the south-east African region. Companies in these countries are interested in responding to environmental standards to increase their international exposure and business opportunities.

36. It is clear however that in the context of sustainable procurement, especially for the United Nations, the use of eco-labels should be explored with extreme caution, and only in markets or sectors where there is a sufficient degree of maturity in this regard, and should be considered as only one of the many means of proof that a supplier may provide to the United Nations in relation to the environmental performance of products.

D. Sustainable procurement supports "best fit"

37. Sustainable procurement is about finding the most appropriate solution to meet a need, in short "the best fit". The most cost-effective sustainable solution will often be the solution that best understands — and responds to — the local requirements. In United Nations peacekeeping operations, for instance, bricks made of local materials save the freight costs of their transportation across the globe and help to reduce global air pollution and emissions of greenhouse gases. Wind turbines, solar panels and biogas reduce the need for fossil fuels, thereby reducing costs, supply risks and the carbon footprint. Planning by requisitioners and specification development are equally important in delivering more effective solutions. Planning is required to ensure that the most appropriate solution is designed for a peacekeeping operation — such as a kitchen package that looks after food waste generated or the minimization of reliance on diesel through the use of alternatives such as solar energy.

38. Today, these solutions are widely available in developing countries and in countries with economies in transition. The increasing attention being paid in United Nations peacekeeping missions to reducing or eliminating waste will help to foster the development of treatment, reuse and recycling systems locally, helping to stimulate local employment as well as reducing environmental degradation and saving costs. These are examples of sustainable procurement.

V. Conclusion

39. **As demonstrated in this report, sustainable procurement is consistent with the best practices in today's market and with the existing United Nations procurement principles and rules. The Supplier Code of Conduct, the Financial Regulations and Rules, the existing labour clauses in the General Conditions of Contract, the Global Compact, and the existing work of the High-level Committee on Management Procurement Network and the Environment Management Group form a backbone on which sustainable procurement may be developed in the Secretariat. Sustainable procurement could be progressively and appropriately integrated into the Procurement Manual and**

training, providing clear guidelines for staff involved in procurement activities as well as to the supplier community to ensure a fair and consistent application.

VI. Action to be taken by the General Assembly

40. **The General Assembly is requested to take note of the present report.**